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"America's war against Europe"

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By Paul Harris
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(YellowTimes.org) – There are many reasons for George Bush's single-minded drive toward Baghdad. In other articles I have written for YellowTimes.org, I hinted that a not so obvious reason for the drive against Iraq is Bush's war against Europe. In fact, I have now come to believe that is the primary reason for his Iraqophenia.

Whenever a nation decides to go to war, there are plans made for who is going to win and who is going to lose; no one goes to war expecting to lose, but it isn't always the obvious target of the aggression that is the real thrust behind the war. Sometimes, it isn't a case of what you expect to win from a war, but rather a case of what you hope someone else loses; and it doesn't have to be your stated enemy who you hope will sustain the losses.

In this case, Bush's hoped-for victim is the European economy. It is robust, and is likely to become much stronger in the easily foreseeable future. Britain's entry into the European Monetary Union is inevitable; Scandinavia will join sooner rather than later. Already, even without those countries, there will be 10 new member nations in May 2004, which will swell the GDP of the E. U. to about \$9.6 trillion with 450 million people as against \$10.5 trillion and 280 million people in the United States. This represents a formidable competing block for the United States but the situation is significantly more complex than what is revealed just by those numbers. And much of it hinges on the future of Iraq.

I have written before, as have many others, that this upcoming war is about oil. To be sure there are other reasons, but oil is the single most impelling force. Not in the way you might expect, however. It isn't so much that there are believed to be huge untapped oil reserves in Iraq, untapped only due to outdated technology; it isn't so much an American desire to get its grubby hands on that oil; it is much more a question of whose grubby hands the Americans want to keep it out of.

What precipitated all of this was not September 11, nor a sudden realization that Saddam was still a nasty guy, nor just the change in leadership in the United States. What precipitated it was Iraq's November 6, 2000 switch to the euro as the currency for its oil transactions. At the time of the switch, it might have seemed daft that Iraq was giving up such a lot of oil revenue to make a

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political statement. But that political statement has been made and the steady depreciation of the dollar against the euro since then means that Iraq has derived good profits from switching its reserve and transaction currencies. The euro has gained about 17 percent against the dollar since that time, which also applies to the \$10 billion held in Iraq's United Nations "oil for food" reserve fund.

So the question arises, as it did for George Bush, what happens if OPEC makes a sudden switch to euros? In a nutshell, all hell breaks loose.

At the end of World War II, an agreement was reached at the Bretton Woods Conference which pegged the value of gold at \$35 per ounce and that became the international standard against which currency was measured. But in 1971, Richard Nixon took the dollar off the gold standard and ever since, the dollar has been the most important global monetary instrument, and only the United States can produce them. The dollar, now a fiat currency, is at a 16-year trade-weighted high despite record U.S. current-account deficits and the status of the U.S. as the leading debtor nation. The U.S. national debt as of April 4, 2002 was \$6.021 trillion against GDP of \$9 trillion.

Trade between nations has become a cycle in which the U.S. produces dollars and the rest of the world produces things that dollars can buy. Nations no longer trade to capture comparative advantage but rather to capture needed dollars to service dollar-denominated foreign debts and to accumulate dollar reserves in order to sustain the exchange value of their domestic currencies. In an effort to prevent speculative and potentially harmful attacks on their currencies, those nations' central banks must acquire and hold dollar reserves in amounts corresponding to their own currencies in circulation. This creates a built-in support for a strong dollar that in turn forces the world's central banks to acquire and hold even more dollar reserves, making the dollar stronger still.

This phenomenon is known as "dollar hegemony," which is created by the geopolitically constructed peculiarity that critical commodities, most notably oil, are denominated in dollars. Everyone accepts dollars because dollars can buy oil.

The reality is that the strength of the dollar since 1945 rests on being the international reserve currency for global oil transactions (i.e., "petro-dollar"). The U.S. prints hundreds of billions of these fiat petro-dollars, which are then used by nation states to purchase oil and energy from OPEC producers (except presently Iraq and, to some degree, Venezuela). These petro-dollars are then re-cycled from OPEC back into the U.S. via Treasury Bills or other dollar-denominated assets such as U.S. stocks, real estate, etc. The recycling of petro-dollars is the price the U.S. has extracted since 1973 from oil-producing countries for U.S. tolerance of the oil-exporting cartel.

Dollar reserves must be invested in U.S. assets which produces a capital-accounts surplus for the U.S. economy. Despite poor market performance during the past year, U.S. stock valuation is still at a 25-year high and trading at a 56 percent premium compared with emerging markets. The U.S. capital-account surplus finances the U.S. trade deficit.

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Since it is the U.S. that prints the petro-dollars, they control the flow of oil. Period. When oil is denominated in dollars through U. S. state action and the dollar is the only fiat currency for trading in oil, an argument can be made that the U.S. essentially owns the world's oil for free.

So what happens if OPEC as a group decides to follow Iraq's lead and suddenly begins trading oil on the euro standard? Economic meltdown. Oil-consuming nations would have to flush dollars out of their central bank reserves and replace them with euros. The dollar would crash in value and the consequences would be those one could expect from any currency collapse and massive inflation (think of Argentina for an easy example). Foreign funds would stream out of U.S. stock markets and dollar denominated assets; there would be a run on the banks much like the 1930s; the current account deficit would become unserviceable; the budget deficit would go into default; and so on.

And that's just in the United States. Japan would be particularly hard hit because of total dependence on foreign oil and incredible sensitivity to the U.S. dollar. If Japan's economy tumbles, so does that of many other countries, especially the United States in a crescendo of dominos.

Now, this is the potential effect of a "sudden" switch to euros. A more gradual shift might be manageable but even that would change the financial and political balance of the world. Given the size of the European market, its population, its need for oil (it actually imports more oil than the U.S.), it may be rapidly approaching that the euro will become the de facto monetary standard for the world.

There are some good reasons for OPEC as a group to follow Iraq and begin to value oil in euros. There seems little doubt that they would relish the opportunity to make a political statement after years of having to kowtow to the U.S., but there are solid economic reasons as well.

The mighty dollar has reigned supreme since 1945, and in the last few years has gained even more ground with the economic dominance of the United States. By the late 1990s, more than four-fifths of all foreign exchange transactions, and half of all world exports, were denominated in dollars. In addition, U.S. currency accounts for about two thirds of all official exchange reserves. The world's dependency on U.S. dollars to pay for trade has seen countries bound to dollar reserves, which are disproportionately higher than America's share of global output.

It is important to note that the euro is not at any disadvantage versus the dollar when one compares the relative sizes of the economies involved, especially given the E.U. enlargement plans. Moreover, the E.U. has a bigger share of global trade than the U. S. and while the U.S. has a huge current account deficit, the E.U. has a more balanced external accounts position. One of the more compelling arguments for keeping oil pricing and payments in dollars has been that the U.S. remains a large importer of oil, despite being a substantial producer itself. But the EU is an even larger importer of oil and petroleum products than the U.S., and represents for OPEC a more attractive market, closer and less domineering.

The point of Bush's war against Iraq, therefore, is to secure

control of those oil fields and revert their valuation to dollars, then to increase production exponentially, forcing prices to drop. Finally, the point of Bush's war is to threaten significant action against any of the oil producers who would switch to the euro.

In the long run, then, it is not really Saddam who is the target; it is the euro and, therefore, Europe. There is no way the United States will sit by idly and let those upstart Europeans take charge of their own fate, let alone of the world's finances.

Of course, all of this depends on Bush's insane plan not becoming the trigger for a Third World War, as it so readily might.

Excerpts from "The Real Reasons for the Upcoming War with Iraq: A Macroeconomic and Geostrategic Analysis of the Unspoken Truth" used with permission of the author, William R. Clark. This author owes a debt of gratitude to Mr. Clark and encourages you to read Mr. Clark's complete essay at: <http://www.ratical.org/ratville/CAH/RRIraqWar.html>.

[Paul Harris is self-employed as a consultant providing Canadian businesses with the tools and expertise to successfully reintegrate their sick or injured employees into the workplace. He has traveled extensively in what we arrogant North Americans refer to as "the Third World," and he believes that life is very much like a sewer: what you get out of it depends on what you put into it. Paul lives in Canada.]

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